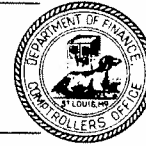




OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



DARLENE GREEN
Comptroller

Internal Audit Section

DR. KENNETH M. STONE, CPA
Internal Audit Executive

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March 10, 2011

Todd Waelterman, Director
Department of Streets
1900 Hampton Avenue
St. Louis, MO 63139

RE: Department of Streets-Traffic and Lighting Division (Project # 2010-12)

Dear Mr. Waelterman:

Enclosed is the Internal Audit Section's report of the process review of the Traffic and Lighting Division for the period July 1, 2008 through June 30, 2009. A description of the scope of work is included in the report.

Fieldwork was completed on July 22, 2010. Management's responses to the observations and recommendations noted in the report were received on March 4, 2011, and have been incorporated in the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 622-4723.

Respectfully,

Kenneth M. Stone

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure

cc: Stephen J. Runde, P.E.
Commissioner, Traffic & Lighting Division



CITY OF ST. LOUIS

DEPARTMENT OF STREETS

TRAFFIC AND LIGHTING DIVISION

PROCESS REVIEW

JULY 1, 2008 THROUGH JUNE 30, 2009

PROJECT #2010-12

DATE ISSUED: MARCH 10, 2011

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
DEPARTMENT OF STREETS
TRAFFIC AND LIGHTING DIVISION
PROCESS REVIEW
JULY 1, 2008 THROUGH JUNE 30, 2009**

EXECUTIVE SUMMARY

Purpose

The Internal Audit Section (IAS) has completed a process review of the Traffic and Lighting Division. The purpose was to determine if the Division effectively and efficiently manages risks to ensure:

- Accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, policies, and procedures
- Safeguarding of assets
- Reliability and integrity of financial and operational information
- Economic and efficient use of resources

Conclusion

The opportunity exists for the Division to improve controls over its financial and operational activities. The following are observations resulting from the review:

1. Opportunity to improve internal controls over inventories
2. Opportunity to ensure compliance with City ordinance on permits
3. Opportunity to improve management statistical reports
4. Opportunity to develop written policies and procedures (repeated)

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Date

**CITY OF ST. LOUIS
DEPARTMENT OF STREETS
TRAFFIC AND LIGHTING DIVISION
PROCESS REVIEW
JULY 1, 2008 THROUGH JUNE 30, 2009**

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INTRODUCTION

Background

The Traffic and Lighting Division was established by Section 17.04.010 of the St. Louis City Revised Code. The Division is responsible for designing, and regulating the control of traffic on City streets and thoroughfares, and for maintaining the system of public lighting within the City. The Division monitors all work orders and Citizen Service Bureau (CSB) requests for resolution of reported problems in a timely and efficient manner.

Purpose

The purpose was to determine if the Traffic and Lighting Division effectively and efficiently manages risks to ensure:

- Accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, policies, and procedures
- Safeguarding of assets
- Reliability and integrity of financial and operational information
- Economic and efficient use of resources

Scope and Methodology

The review was confined to evaluating internal controls over the financial and operational activities of the Traffic and Lighting Division. The audit procedures included inquiries of management and other staff, observations of relevant processes, and reviews for compliance with policies and procedures, as well as applicable laws and regulations. Limited tests of controls, follow ups on prior audit observations and other procedures as considered necessary were performed.

Exit Conference

An exit conference was conducted at the Department of Streets on February 24, 2011. The Traffic and Lighting Division was represented by Todd Waelterman, Director of Street Department and Stephen Runde, Commissioner of Traffic. The Internal Audit Section was represented by Dorothy Middleton, Auditor II and Olaide Hassan, Auditor-in-Charge.

Management's Responses

Management's responses to the observations and recommendations noted in this report were received from the Traffic and Lighting Division on March 4, 2011. The responses have been incorporated into this report.

OBSERVATIONS

Status of Prior Observations

The Internal Audit Section (IAS) reviewed the observations in the previous report issued November 27, 2006. There were six unresolved observations. Five of the unresolved observations were under the Streets Director's Office and were considered to be outside the scope of this review. The remaining unresolved observation was as follows:

Opportunity to develop written policies and procedures (Repeated)

Summary of Current Observations

The opportunity exists for the Division to improve controls over financial and operational activities. The following are observations resulting from the review:

1. Opportunity to improve internal controls over inventories
2. Opportunity to ensure compliance with City ordinance on permits
3. Opportunity to improve management statistical reports
4. Opportunity to develop written policies and procedures (repeated)

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

1. Opportunity To Improve Internal Controls Over Inventories

Internal Audit Section (IAS) review of the internal controls over inventory revealed that improvements should be implemented to ensure all inventory supplies are properly accounted for and safeguarded. It was noted that:

- Daily requests or releases of supplies from the warehouse were not reviewed and approved by a foreman or supervisor
- Periodic or annual physical inventories of warehouse items were not performed in recent years
- The warehouse coordinator maintained records of inventories on the computer system using the Access software. Records of inventories are updated with daily issues and receipts. However, the inventory records were not periodically reconciled to actual quantities on hand.

Proper controls over requisitions from storage will better ensure that materials are adequately safeguarded. Periodic physical inventories and reconciliations to the inventory records will assist management in budgetary planning and efficient use of resources.

Upon inquiry, IAS was informed inadequate staffing prevented management from performing annual physical inventories of items in the warehouse. Lack of review and approval of requisitions for release may result in abuse and misuse of materials. Items issued out may be diverted for other unauthorized use resulting in uncontrolled expenditures.

Recommendations

It is recommended that management improve internal controls to ensure all inventory items are properly safeguarded. The control procedures should include:

- Supervisory reviews and approvals of requisitions before inventory is released
- Periodic or annual physical inventories of warehouse items. The physical inventories should be documented.
- Periodic reconciliations of inventory records to items on hand

Management's Responses

We will do periodic to reconcile our inventory. From instance one month we will inventory wire, the next month signal heads, then 150W fixtures, etc. We do not want to pre approve release of inventory as this would hinder the amount of work performed. .

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

1. Continued... ..

We will have foremen post check released inventory to confirm it was needed.

2. Opportunity To Ensure Compliance With City Ordinance On Permits

IAS selected samples of loading zone permit applications approved by the Division in 2008 and 2009. It was noted that the Division approved a reduction in annual fees paid by the Grand Center, Inc. and Advance Sales, Inc. The annual fees due to the City for the loading zone permits issued to Grand Centers, Inc. and Advance Centers, Inc. per the City Ordinance #55926 were \$110 and \$150, respectively. Actual payments received from the two applicants were \$80 and \$91.70, respectively.

IAS learned that the annual fee reductions were issued around June 2009. The Division pro-rated the fees in a effort to be fair to the applicants. There were no written policies and procedures for loading zone application processing and approval processes

City Ordinance #55926, Section 8(d) authorized the Traffic Commissioner to issue annual permits for loading zones for commercial vehicles upon application for a permit. All permits expire on the December 31st of the year for which the permit was issued.

The reduction of the annual permit fees charged on permits issued could be considered a violation of the provision of City ordinance. In addition, the Division may be setting precedence which may be abused by the Division's personnel. This may also lead to loss in revenues and inaccurate reporting for the permits issued.

In addition, proper records were not maintained for loading zone permits issued by the Division. For example, approved applications for some of the loading zone permits issued in 2008 and 2009 could not be located.

Maintaining proper records of loading zone applications received and approved, and applicable payments received will facilitate the reconciliation of the accounts and provide an audit trial of the transactions.

Lack of written policies and procedures on the loading zone applications and approval processes may result in improper and inconsistent fees charged to applicants.

Recommendation

IAS recommends that management:

- Comply strictly with the City ordinance and ensure that the appropriate fees prescribed by the City ordinance for the loading zone permits are collected from the applicants.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

2. Continued... ..

- Develop written policies and procedures on the loading zone applications and approval processes. The written policies and procedures when completed should be approved by the Streets Director.
- Maintain copies of approved applications for permits and copies of invoices mailed to customers for renewal

Management's Responses

We will strictly adhere to the City ordinance and document any reason that fees are changed. We will develop written a policy and procedure and start a file to maintain all applications.

3. Opportunity To Improve Management Statistical Reports

The Division adopted as standard target days for the completion of reported problems. The monthly statistical reports are generated by the Customer Service Bureau (CSB) and provide management performance evaluations of actual completion of requests received.

IAS reviewed nine reports between July 2008 and June 2009 to determine accuracy and reliability. IAS found that the performance measures were not accurately reported and therefore not reliable. The following discrepancies were noted:

- Performance levels (requests closed within and over target) on all reports were incorrectly counted. The total requests closed within and over target per the CSB management statistical report were 9,977 and 1,430. However, the total requests closed within and over target based on the IAS recalculation were 10, 642 and 1,317 respectively. The total errors found were 665 and (113).
- Projects reported within and over the target days in September, October and November 2009 did not agree to the total projects requested; therefore, the percentage totals did not equal 100%. Differences of 388, 74 and 65 respectively were noted.
- The summary totals on the September 2008 and the January and June 2009 reports did not agree with the totals reported in the CSB system.

The report may not provide management with a reliable performance measure of the Division's activities and may be misleading. A comprehensive management report adopted as a tool to measure Division's performance should be reliable, and easy to understand by all users. IAS found that there was no evidence of management review to identify the

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

3. Continued... ..

discrepancies in the monthly statistics report. The Division could not explain the discrepancies.

Recommendation

IAS recommends that management review the reports and follow-up on the discrepancies noted. Discrepancies should be reported to CSB and Information Technology Services Agency (ITSA), and modifications to the software should be performed, if necessary.

Management's Responses

We will work with Citizen's Service Bureau to determine why these discrepancies are occurring and how to fix the problem.

4. Opportunity To Develop Written Policies And Procedures (Repeated)

Based on discussion with the Commissioner, the Division has not established written policies and procedures for its operations. The Commissioner proposed in the management responses to the last audit that the Division would have written policies and procedures for its operational and fiscal activities completed by May 1, 2007. The written policies and procedures have not been completed to date.

Written policies and procedures assist in ensuring that procedures and job functions are:

- Efficiently communicated to and understood by staff
- Consistently performed
- In accordance with management goals and objectives
- Approved by management
- Provide a basis for training and the development of performance standards and measures

Lack of written policies and procedures increase the risk that control procedures will not be effective or may be overridden, employees will not be effectively trained and appropriate standards may not be developed. Management attributed the inability to establish written policies and procedures to time constraints and limited employees available to perform the day to day requests received.

Recommendation

IAS recommends that the management establish written policies and procedures for all significant operational functions performed by the Division's personnel. The written policies and procedures should be:

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

4. Continued... ..

- Approved by the appointing authority and dated
- Formally communicated to staff, and the communication documented
- Reviewed and updated periodically

Management's Responses

We recently completed a written policy and procedure for the dispatchers. I will have all foreman work with their employees to come up with a list of what they do and prioritize their work.